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STATE OF SOUTH CAROLINA

BEFORE THE PUBLIC SERVICE COMMISSION

DOCKET NO. 2000-0210-W/S

IN THE MATTER OF:)
)
Application of United Utility Companies, Inc.)
for an Adjustment of Rates and Charges for)
Provision of Water and Sewer Service)

DIRECT TESTIMONY OF

MICHAEL A. BLEIWEIS

ON BEHALF OF

THE CONSUMER ADVOCATE OF SOUTH CAROLINA

January, 2002

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Michael A. Bleiweis and my business address is 243 Banks Road, Easton, Connecticut.

Q. By whom are you employed?

A. I am employed by The Woodside Group, Inc., a financial and management consulting firm.

Q. What position do you hold with The Woodside Group and in what endeavor do you specialize?

A. I am a principal specializing in testifying on various financial and accounting issues, especially revenue requirement determination, in public utility rate cases. Over the course of my career, my services have been utilized by various consumer advocate and public interest groups and by public utilities.

Q. For whom are you testifying in this proceeding?

A. I am testifying on behalf of the Consumer Advocate.

Q. What is your educational background?

A. I am a graduate of Syracuse University with a Bachelor of Arts degree in Political Science and of New York University Graduate School of Business Administration with a Masters of Business Administration degree in Financial Analysis and Securities Analysis.

Q. What has been your business experience?

A. In 1973, I was employed as an economic research consultant with the firm of National Economic Research Associates (NERA) where I was involved in the preparation of rate of return exhibits that were based upon computer modeling for various utility companies.

In 1974, I joined the firm of Citizens Utilities Company as a Revenue Requirements Analyst. My duties included the preparation of financial exhibits and testimony for various electric, water, gas and sewer company rate cases.

In 1977, I joined American Water Works Service Company as Director of Rates and Revenue of the Eastern and New England Divisions of American Water Works Company, Inc. I was charged with the responsibility of preparing financial exhibits, supporting data and testimony for use in rate hearings for a total of thirteen water companies in New England, New York and New Jersey.

I have been employed by The Woodside Group since 1979.

Q. Please describe further your experience in regulatory matters.

A. Attached as Appendix A is a listing of the proceedings in which I have testified or participated concerning the proper determination of revenue requirements and other rate-related topics.

II. SUMMARY OF METHODOLOGY

Q. Mr. Bleiweis, will you please summarize the source material you utilized in preparing this testimony and the accompanying schedules?

A. My testimony and schedules are primarily based upon company replies to the Consumer Advocate's four sets of interrogatories, replies to Staff data requests, the company's application and company testimony.

Q. What methodology have you utilized in determining the revenue requirement for the company?

A. I have utilized the rate base/rate of return methodology. Unlike many water and wastewater utilities located in South Carolina whose plant was contributed by developers, thereby resulting in small or even negative rate bases, United Utility Companies' rate base is significant enough to determine a proper revenue requirement by using the rate base/rate of return methodology.

III. TEST YEAR

Q. What test year has the company utilized for this proceeding?

A. The company has utilized calendar year 2000 as a test year, even though this data is over a year old.

Q. What is the problem with using an out-of-date test year for regulatory purposes?

A. Since the test year is so old, it is probable that the revenue and expense data is not representative of future expenditures and, therefore, the resultant rates that ratepayers have to pay may be skewed upward.

Q. Please comment about the purpose of a test year in regulatory proceedings.

A. In its Order in the recent Carolina Water Service (CWS) rate case (Order No. 2001-887), the Commission included the following quote from the Charles Phillips text *The Regulation of Public Utilities* regarding the purpose of a test year:

> "The Commission must have a basis for estimating future revenue requirements." page 10

Regarding what items should be included in the test year, the Commission quoted the following:

"For ratemaking purposes, *only just and reasonable expenses are allowed*; only used and useful property (with certain exceptions) is permitted in the rate base." page 10 (Emphasis added.)

Q. Does the same Dr. Phillips give us a guide as to how the abovementioned "basis" is to be determined?

A. Yes. He states:

"...the commission must have a basis for estimating future revenue requirements. This estimate is one of the most difficult problems in a rate case. A commission is setting rates for the future, *but it has only past experience (expenses, revenues, demand conditions) to use as a guide*." 1984 edition, page 182 (Emphasis added.)

Q. Does utilization of past expenditures in order to determine normal test year expenditures for ratemaking purposes violate the known and measurable standard, as has been suggested by a Utilities, Inc. witness in the CWS proceeding?

A. No, of course not. However, not testing actual test year expenditures does violate the known and measurable standard because, though the expenditure is obviously known, it must be determined if it is representative of future expenditures (measurable). If it is not representative, then, it must be adjusted. As quoted in the CWS Order:

"...[w]here an unusual situation exists which shows that the test year figures are atypical and thus do not indicate future trends, *the Commission should adjust the test year data*." page 47 (Emphasis added.)

Q. How does one show that a test year figure is "atypical"?

A. A widely accepted methodology is to compare the test year data with prior years' data. If a significant variance is evident, then a determination must be made as to the cause of the variance and a decision must be made whether to adjust the test year data.

Q. What do you consider to be a "significant variance"?

A. Though the answer to this question is a matter of informed judgment, I generally consider a variance in expense from year-to-year of over 10%, well above the recent inflation rate, to be significant. It is important to consider the percentage variance rather than the absolute variance in dollars because a large dollar variance may not necessarily mean there is a large percentage variance, especially when working with large numbers. Again, what is important is that the expense used for ratemaking purposes is representative of future conditions and is just and reasonable, otherwise, rates will be artificially high.

Q. In your opinion, is it necessary to show that the questionable expense will decrease over time?

A. No. I do not know how one goes about showing with certainty that an expense will decrease over time. But it is not difficult to show that a test year expense, when compared to prior years, is skewed.

Q. Should the Commission not consider an adjustment to an expense which has risen consistently over the past few years?

A. No. It is to be expected that expenses will increase by some small amount each year due to inflation and other factors. It is the <u>large increases</u> about which the Commission should be concerned, especially for such a small utility. Unless the company can prove that the test year expense is just and reasonable, it is open to adjustment for ratemaking purposes.

Q. Mr. Bleiweis, you recommend below a number of adjustments to test year expenses which have risen considerably over the past three years or which show significant variability. Were there some cases where you did not make adjustments, even though there were large percentage increases?

A. Yes. For example, even though insurance expenses rose considerably over the three-year period, I do not recommend that any adjustments be made since these increases are consistent throughout the utility industry. I have only made adjustments to those expenses for which the variance has not been adequately explained.

Q. Have you made comparisons of test year expenses with prior years' expenses?

A. Yes. I compared test year expenses with those of the two prior years, 1999 and 1998, utilizing general ledger data provided in response to CA Interrogatories 1-7(b) and 1-37. The results of those comparisons, company replies to data requests and proposed adjustments follow.

IV. TEST YEAR ADJUSTMENTS

A. Account #6338001-Legal Fees

2000-$2,490 1999-$143 1998-$1,760

The reply to CA Interrogatory 2-4 states: "In 2000 UUC incurred additional attorney fees relating to the Valleybrook Consent Order with DHEC."

Obviously, these fees are related to an extraordinary occurrence[1] (since they are described as being "additional" and when compared to the prior year) and should be deferred over a five-year period. As shown on Schedule MAB-3 , such a deferral results in pro forma test year expense of $498, and a $1,992 downward adjustment to expense ($2,490-$498).

B. Account #6019020-Salaries Charged to Plant-WSC

2000-$(13,390) 1999-$(38,445) 1998-$(10,037)

The reply to CA Interrogatory 2-8 states: "The account listed above is used to track employee's time spent on actual projects (Capitalized Time). As employees spend more or less time on projects that are tracked for Cap. Time this number will fluctuate."

For this account, the company admits that the amount of capitalized salaries fluctuates over time. The higher the amount of capitalized

[1] The reply to C.A. 4-6 states that the entire amount of $2,490 was related to the Valleybrook Consent Order.

salaries, the higher the net income; the lower the amount of capitalized salaries, the lower the net income. Therefore, because of this fluctuation, in order to reflect a representative expense offset for ratemaking purposes, I recommend that the Commission utilize a three-year average of actual capitalized salaries. The use of such an average is common in ratemaking proceedings in instances where the test year number shows no trend either upward or downward. As shown on Schedule MAB-4, use of a three year average results in a pro forma test year expense offset of $(20,624), a $(7,234) increase to the offset. (Pro forma plant should also be increased by $7,234.)

C. **Account #6708000-Uncollectible Accounts**

2000-$11,194 1999-$7,677 $1998-3,043

The reply to CA 2-10 states: "This account has increased because more customers did not pay their bills in 2000 when compared to 1999."

This account, which is also known as Bad Debt Expense, is supposed to represent the company's (and its auditors') estimate of an annual amount of outstanding bills that will not be paid during a 12-month period. It is not a "write-off"; it is not an exact amount; and it is subject to some judgment. The large increase in this account over the past three years as shown above, both in terms of dollars and percentage, is very unusual for a company of this size, which has a fairly stable customer base.

The cause of this increase is unknown but it is not unusual for companies to periodically "clean up" their accounts which results in unusually high bad debt expense. Support for a possible clean up can be seen by looking at uncollectible expense for 1997 and 1996 which was $9,364 and $6,887, respectively, and the fact that the 1998 expense, the lowest of the three years, occurred in the year of the highest revenues over the three-year period. (Consideration should also be given to the fact that the uncollectible ratio used in the CWS rate case was 0.5864%, much lower than the ratio utilized below.)

It is common regulatory practice to determine test year uncollectible expense by utilizing an average over time of the relationship between uncollectible expense and revenues. Utilizing an average over time, rather than during just the test year, as is current Commission practice, smoothes out variations during the period and results in a more representative expense for ratemaking purposes. Revenues for the three-year period 1998-2000 totaled $1,112,155 while uncollectible expense totaled $21,914, or a ratio of 1.97% ($21,914/$1,112,155). As shown on Schedule MAB-5, applying this ratio to test year revenue under present rates of $360,283 results in pro forma uncollectible expense of $7,099, a downward adjustment of $4,095 ($11,194-$7,099) from actual test year expense. The same ratio should be applied to pro forma revenue under proposed rates when that revenue is determined.

D. **Account #6369003-Temp Employ-Clerical**

2000-$1,823 1999-$142 1998-$102

The reply to CA 2-11 states: "This increase reflects the higher costs of using temporary employees and the increased usage of temporary employees to perform clerical duties."

A comparison of the numbers above, which are consistent for two of the three years, shows conclusively that the test year expense is an anomaly and should be adjusted. The company had the opportunity to explain why there was a need to increase the usage of temporary employees and whether this situation will continue in the future but chose not to do so. Therefore, as shown on Schedule MAB-6, I recommend that a three-year average of the actual expenses be utilized for ratemaking purposes, resulting in pro forma test year expense of $689 and a downward adjustment to expense of $1,134 ($1,823-$689).

E. **Account #6759003-Computer Supplies**

2000-$2,199 1999-$1,269 1998-$885

The reply to CA 2-14 states: "This increase is from increased costs and increased need of computer equipment."

The increases in computer costs of 43.4% between 1998 and 1999 and 72.3% between 1999 and 2000 are, needless to say, far above the 2%-3%

rate of inflation. The company gives no credible reason for the increases except to say the costs and need increased. Most costs increase over time but not by the exceptional percentages stated above. In order for rates to be just and reasonable (as discussed above), a three-year average of computer supply costs should be utilized for ratemaking purposes. As shown on Schedule MAB-7, such an average results in pro forma test year expense of $1,451, or a downward adjustment to expense of $748 ($2,199-$1,451).

F. <u>Account #6759135-Operations Telephone</u>

2000-$5,722 1999-$3,926 1998-$2,966

The reply to CA 2-16 states: "This account increased due to increased usage and costs."

The above reply does not give the Commission or the parties sufficient understanding as to why telephone usage and costs increased 32.4% between 1998 and 1999 and 45.7% between 1999 and 2000. These increases are exceptional and the test year amount should be adjusted to reflect a reasonable expense for ratemaking purposes. As shown on Schedule MAB-8, use of a three-year average results in pro forma test year expense of $4,205, or a downward adjustment to expense of $1,517 ($5,722-$4,205).

G. **Account #6759507-Water Main Breaks**

2000-$1,600 1999-$0 1998-$0

The reply to CA 2-17 states: "This account balance consists of two invoices for repairing main breaks. UUC considers these as ordinary expenses, as such they are expensed when incurred. There were no expenses booked to account #6759507 in 1999 or 1998."

This account is a perfect example of why some test year accounts should be adjusted for ratemaking purposes to reflect a "normal" level of expenditures. It is certainly normal that some number of main breaks will occur over time; what is not known is what that number will be. It is also proper for the company to expense such expenditures since they can be deemed to be "ordinary" expenditures. However, since no amounts were charged to this account in the prior two years, it is clear that the test year expense is extraordinary and should be adjusted for ratemaking purposes by taking a three-year average of actual expenditures. As shown on Schedule MAB-9, use of a three-year average results in pro forma test year expense of $533, a downward adjustment to expense of $1,067 ($1,600-$533).

H. **Account #6759509-Water-Water Elec Equipt Repair**

2000-$706 1999-$0 1998-$0

The reply to CA 2-18 states: "There was one charge in 2000 for a service call and wiring repair. UUC considers these as ordinary expenses, as such they are expensed when incurred. There were no expenses booked to account #675950(9) in 1999 or 1998."

Similar to the discussion for Account #6759507 above, this account should also be averaged for ratemaking purposes since the test year expense is obviously extraordinary. As shown on Schedule MAB-10, use of a three-year average results in pro forma test year expense of $235, a downward adjustment to expense of $471 ($706-$235).

I. **Account #7754006-Sewer-Maint Repairs**

2000-$21,128 1999-$7,885 1998-$8,051

The reply to CA 2-19 states: "In 2000 UUC had employees perform repair jobs instead of contracting them out. In order to complete these repairs UUC had to purchase Materials & Supplies. The increase can therefore be attributed to increased purchases and higher prices."

The extraordinary nature of this increase is explained in the above reply and shown by comparison of the test year expense to the two prior years, which were much lower. Again, sewer maintenance repairs are to be expected, but the test year should only represent a normal level of expenditure. In this case the test year amount is clearly abnormal and should be adjusted. As shown on Schedule MAB-11, use of a three-year average results in pro forma test year expense of $12,355, a downward adjustment to expense of $8,773 ($21,128-$12,355).

J. Account #7754007-Sewer-Main Breaks

2000-$1,650 1999-$0 1998-$(151)

The reply to CA 2-20 states: "There was a broken pipe that connected to a manhole that needed to be repaired. UUC considers this an ordinary expense; as such it was expensed when incurred. There were no expenses booked to account #6759507."

This account should be handled similarly to Account #6759507-Water Main Breaks, discussed above, especially since there were no charges during the past two years, by utilizing a three-year average. As shown on Schedule MAB-12, use of a three-year average results in pro forma test year expense of $500, a downward adjustment to expense of $1,150 ($1,650-$500).

K. **Account #7754009-Sewer-Elec Equipt Repair**

2000-$10,022 1999-$1,091 1998-$1,086

The reply to CA 2-22 states: "Multiple blower motors went out in 2000 that needed to be repaired."

This account is similar to Account #6759509-Water-Water Elec Equipt Repair above. In this case, there was a large test year expenditure after two years of almost identical, much lower expenditures. The test year expenditure is clearly abnormal and should be adjusted. As shown on Schedule MAB-13, use of a three-year average results in pro forma test year expense of $4,066, a downward adjustment to expense of $5,956 ($10,222-$4,066).

L. **Account #7754011-Sewer-Sewer Rodding**

2000-$24,522 1999-$13,680 1998-$11,167

The reply to CA 2-23 states: "More calls were received in 2000 than in 1999 to perform sewer rodding."

This account shows another variation of why an average expense should be utilized for ratemaking purposes. In this case, it is evident, as explained above, that the sewer rodding expense is directly related to the number of calls. Since it is unknown whether the number of calls will increase or decrease in future years, it is proper to calculate an average as being a representative expense, especially considering the over 79% test year increase. As shown on Schedule MAB-14, use of a three-year average results in pro forma test year expense of $16,456, a downward adjustment to expense of $8,066 ($24,522-$16,456).

M. Account #6759018-Operators-Other Office Expense

2000-$3,801 1999-$1,483 1998-$3,333

The reply to CA 2-24 states: "The increase i[n] this account is due to the additional cost of running several newspapers advertisements."

The company admits that the 156% increase in this account as compared to the year before is due to unusual, "additional" expenditures. Because of these abnormal expenditures (the company did not volunteer the purpose of these advertisements) and the variability of this account (as shown above), an average should be taken for ratemaking purposes. As shown on Schedule MAB-15, use of a three-year average results in pro forma test year expense of $2,872, a downward adjustment to expense of $929 ($3,801-$2,872).

N. Account #6759080-Maint-Deferred Charges

2000-$509 1999-167 1998-$0

The reply to CA 2-25 states: "The Maintenance-Deferred Charges account consists of one-twelfth of 20% of the Deferred Charges relating to Data

Request 2-2. As charges being deferred increases so does the amortization of that charge."

In its reply to CA 2-2, the company explains that this deferral is due to "a first time ever lagoon cleaning (sludge hauling) charge". Since this ($432 of the total $509) appears to be an <u>extraordinary charge</u>, even though it is not clear how often lagoon cleaning will be necessary, similar to Account #6338001-Legal Fees described above, I agree that the charge should be deferred and amortized for ratemaking purposes.

Based upon the replies to CA 1-7(b) and 2-4, it appears that $77 of the $509 total amortization is for small tank maintenance jobs that occurred during 2000. The company has been consistent in deferring tank maintenance expense which it considers to be extraordinary and since the Commission has allowed deferral of similar expenses, it should be allowed here.

O. <u>Account #7352020-Sewer Tests</u>

2000-$10,565 1999-$7,484 1998-$7,897

The reply to CA 2-27 states: "The lab that UUC was using was decertified and the new lab that was used, on an emergency basis, was more expensive."

It is clear from the above reply that, since the new lab was used "on an emergency basis", the test year expense is abnormally high, especially when compared to the two prior years. As shown on Schedule MAB-16 , use of a three-year average for this account results in pro forma test year expense of $8,649, a downward adjustment to expense of $1,916 ($10,565-$8,649).

P. Account #6501020-Gasoline

2000-$5,995 1999-$3,394 1998-$5,025

The reply to CA 2-28 states: "This increase is due to an increase in prices and increased usage."

The variability in this account over the three-year period is shown above and, therefore, it is obvious that test year gasoline expense is not representative of future periods. Further, the Commission should consider the fact that the price of gasoline has declined since the test year. Because of this variability, it is proper to reflect a three-year average of actual gasoline costs for ratemaking purposes. As shown on Schedule MAB-17, use of a three-year average results in pro forma test year expense of $4,805, a downward adjustment to expense of $1,190 ($5,995-$4,805).

V. OTHER ADJUSTMENTS

A. Employee Bonuses

Q. Did the Commission rule on the issue of employee bonuses in the Carolina Water Service rate case?

A. Yes. In its Order No. 2001-887 for the recent Carolina Water Service (CWS) rate case (Docket No. 2000-207-W/S), the Commission removed from test year expenses bonuses that were paid to CWS and WSC (service company) employees because "employee bonuses should be the responsibility of the shareholders and not the ratepayers." (page 29)

Q. Is there a similar issue in this proceeding?

A. Yes. In this proceeding, according to the reply to CA 4-3, test year expenses include bonus payments of $241 to UUC employees and allocated WSC bonuses of $74. Employee bonuses should be the responsibility of the shareholders and not the ratepayers. Therefore, as shown on Schedule MAB-21 , a total of $315 should be eliminated from test year expenses for ratemaking purposes.

B. Pro Forma Plant

Q. Has the company included a rate base claim for pro forma plant?

A. Yes. As shown on Schedule C, page 1, of the Application (as revised), $87,353 has been included in rate base for pro forma plant. The reply to

CA 1-34 shows that $45,000 of the total is for new digestors and the remaining $42,353 is for a portable generator.

Q. What is the estimated completion date for these projects.

A. The estimated completion date is December, 2001, almost one year after the end of the test year for this proceeding.

Q. Were any funds spent on these projects during the test year?

A. No. In his Direct Testimony at page 6, Mr. Lubertozzi states that:

> "The other rate base adjustment indicated on Schedule C is to reflect capital projects that were underway but not yet complete as of the end of the test year." (Emphasis added.)

However, Mr. Lubertozzi is mistaken that the projects were underway.

Q. How do you know that Mr. Lubertozzi is mistaken?

A. First, the company's balance sheet at December 31, 2000 (Application Exhibit B, Schedule A) shows a zero balance for Construction Work In Progress. If either project had been underway, the balance would have been greater than zero.

Second, the reply to CA 1-6 emphatically states that:

> "No construction was being performed as of December 31, 2000."

Q. Why is it significant that the projects were not underway as of the end of the test year?

A. In its Order for CWS , the Commission disallowed claimed pro forma plant because:

> "... the adjustment does not reflect actual completed additions to plant but rather estimates of the plant projects under construction that are not yet completed." page 53

In this case, not only are the projects not completed but they were not yet even underway as of the end of the test year.

Q. What do you recommend?

A. As shown on Schedule MAB-26, I recommend that the company's pro forma plant in the amount of $87,353 be disallowed for ratemaking purposes. Also, as shown on Schedule MAB-19, the related depreciation on this plant should be similarly disallowed resulting in a $1,310 downward adjustment to expense.

C. <u>Accumulated Depreciation</u>

Q. Has the Accumulated Depreciation balance, as shown on Schedule C of the Application, which is included in rate base, been adjusted for the company's annualized depreciation adjustment?

A. No. In simple terms, the Accumulated Depreciation balance is the running total of depreciation taken on plant- it is an offset to the plant balance. If depreciation expense is adjusted, Accumulated Depreciation should be adjusted also. In its reply to CA 1-35, the company stated that:

> "...the Accumulated Depreciation balances shown on Schedule C of the Application have been adjusted to reflect annualized depreciation."

However, this is a misstatement. If the Accumulated Depreciation rate base balance had been adjusted, then the rate base balance would have been larger (a larger negative) then the year-end book balance. This is not the case. If the test year-end book accumulated depreciation balance shown on the balance sheet on Schedule A of the Application is compared to the rate base balance on Schedule C, page 1, the balances are the same negative $229,884. Therefore, the book balance was not adjusted.

Q. What do you recommend?

A. As shown on Schedule MAB-1, I have increased the Accumulated Depreciation balance by negative $3,855. As shown on Schedule MAB-19, (Depreciation Expense), this adjustment is composed of two parts. First, the balance has been increased by the annualized depreciation adjustment of $5,165. Second, the balance has been decreased by not allowing depreciation to be taken on Pro Forma Plant, as discussed above.

D. <u>Utility Commission Expense</u>

Q. What adjustment is the company proposing to make to the Utility/Commission Tax?

A. The company is proposing to increase the Utility/Commission Tax by an <u>estimated</u> five percent, or a total of $223. It is a widely followed regulatory principle that rates should be based on "known and measurable" data. Ratepayers should only have to pay for expense levels that are known to exist in order to avoid possible windfalls to the utility. Even though this adjustment is relatively small, in my opinion, it is important for the Commission to recognize that just and reasonable rates should only be based upon data that can be supported by fact.

Q. What do you recommend?

A. Since the company's claim is not known and measurable, it should be rejected for ratemaking purposes. In its CWS Order at page 43, the Commission stated:

> "Witness Bleiweis was correct in his assessment that an 'estimated' increase to a tax does not meet the 'known and measurable' standard."

As shown on Schedule MAB-18, this results in a $223 downward adjustment to expense.

E. <u>Revenue Annualization/Customer Growth Adjustment</u>

Q. Has the company included an adjustment to either annualize revenues or reflect customer growth?

A. No. The company has neither annualized revenues nor adjusted net income for customer growth.

Q. Why is a revenue adjustment necessary?

A. In this proceeding, the company has presented adjustments to annualize expenses for salaries, wages and benefits, depreciation and taxes other than income taxes as of the end of the test year. Since expenses have been annualized as of the end of the test year, it would be a <u>regulatory and financial mismatch</u> not to annualize revenues at the same point in time. By not annualizing, the company has reflected revenues based upon the average number, rather than the year-end number of test year customers. It is unfair to customers to determine rates by not accounting for growth in the number of customers during the test year.

Q. How is a revenue annualization adjustment determined?

A. For water utilities, the normal method would be to multiply the year-end number of customers by average consumption and then use the tariffs to price out the service and consumption charges. For sewer utilities, the normal method would be to multiply the number of year-end customers by the applicable tariff charges.

Q. Have you been able to determine a revenue annualization adjustment?

A. No. Because of some anomalies between the data provided by the company and test year numbers of customers, I have been unable to calculate a revenue annualization adjustment.

Q. For purposes of this testimony, have you utilized another method that calculates customer growth?

A. Yes. On Schedule MAB-20, I have calculated a customer growth adjustment by applying the increase in the number of customers from 12/31/99 to 12/31/00 to average revenue per customer.

In its Order for CWS at page 64, the Commission stated:

> "The adjustment proposed by the Consumer Advocate only applies to revenues and not to expenses. The Commission believes that any adjustment for customer growth must necessarily also take into account increases in expenses."

Therefore, I have reduced the customer growth adjustment for the three expense categories which I believe could be, but not necessarily are, directly related to customer growth- uncollectible expense, purchased power expense and chemical expense.

The result is an upward adjustment to revenue of $2,326 and a upward adjustment to income of $1,839 after applying revenue-related expenses.

Again, though I am presenting this adjustment, I would prefer that a revenue annualization adjustment be calculated instead.

F. Cash Working Capital

Q. Has the company calculated a cash working capital balance to be included in rate base?

A. Yes. Cash working capital has been calculated by applying a percentage of 12.5%, representing an average expense lag time, to the total of O&M expense <u>and</u> taxes other than income taxes.

Q. Do you agree with this methodology?

A. I agree with applying a 12.5% factor against O&M expense but not with applying the factor to taxes other than income taxes.

Q. Why is it improper to apply the factor to taxes other than income taxes?

A. In rate proceedings, two major methodologies are used to determine cash working capital. The preferred method is a lead/lag study but this can be an expensive and time-consuming proposition for a small utility. The alternative methodology is to apply the 12.5% factor (45 days divided by 360 days) to operation and maintenance expenses. In my experience, I have never seen the 12.5% factor applied to taxes other than income taxes in a rate proceeding because this factor is supposed to represent the lag for O&M expenses only.

In its Order in the CWS proceeding at page 61, the Commission stated:

> "The Commission agrees that a 12.5% factor should be applied to O&M expense only, exclusive of Taxes Other Than Income."

Q. What do you recommend?

A. As shown on Schedule MAB-27 , according to Commission precedent, I recommend that the 12.5% factor be applied <u>only</u> to test year adjusted O&M expense. The result is a $11,234 downward adjustment to rate base.

VI. OTHER TOPICS

A. Pro Forma Salaries

Q. What amount of pro forma salaries is the company claiming for this proceeding?

A. As shown on Schedule B, page 1, of the Application, in the Pro Forma Present column, the company is claiming the following pro forma salary expenses: Maintenance- $114,707 and General- $17,409- or a total of $132,116.

Q. At your request, did the company provide a workpaper supporting these figures?

A. The company did provide a workpaper in response to CA 1-14(a) but as discussed below, I do not believe the workpaper supports the company's claim.

Q. Why do you believe that the salary claim is unsupported?

A. The workpaper provided by the company is virtually undecipherable and is incomplete. The $114,707 maintenance salary number can be seen under the Total Annualized Salary column. As shown, this number is composed of two parts: maintenance salaries and supervisory salaries. The allocation percentages for the seven maintenance employees are shown in the middle of the page but the allocation percentages for the three supervisory employees are not shown at all.

Further, the pro forma general expenses salaries of $17,409, is not shown at all on this worksheet leaving the parties to guess how it was determined. It is my conjecture that the general salaries are composed of two parts: $10,387 for allocated South Carolina (CWS) office salaries and $7,022 allocated service company (WSC) salaries.

CA 4-1(b) requested the company to provide workpapers supporting the CWS Office allocation. The company replied:

> "There are no workpapers supporting the $10,387 other than the ones previously provided."

If there are no workpapers, then how is the Commission and the parties to know how this number was determined and whether it should be accepted for ratemaking purposes?

Similarly, CA 4-1(c) requested the company to support the $7,022 WSC allocation. The company replied that the support could be found in the WSC allocation book. After my review of this voluminous book, it is not at all clear how it supports this specific allocation.

Q. Is there also another issue regarding salaries?

A. Yes. CA 2-9 requested the company to explain the 68% increase in Illinois administrative salaries allocated to UUC between 1999 and the test year. The company replied that:

> "...the increase reflects a change in account coding. In 1999 this account was coded UI whereas in 2000 this account was coded to WSC."

When asked to provide a further explanation of this change, the reply to CA 4-7 stated that:

> "...certain expenses were coded to UI in 1999 that were coded to WSC in 2000 which increased the allocation base."

I take this "explanation" to mean that expenses that used to be allocated to the parent corporation (UI) and, therefore, not allocated to the subsidiaries, are now being charged to the service company (WSC) and further allocated to subsidiaries such as UUC and ultimately passed on to ratepayers. The company has not explained why the change in coding occurred. It appears that a simple change in coding can be very costly to ratepayers.

Q. What do you recommend?

A. The burden of proof is upon the company to support all of the revenue, expense and rate base data that is included in its filing and that is the basis for its rate request. In the areas of Maintenance Supervisory and

General Expense pro forma salaries, as discussed above, the company has simply not met its burden of proof. Its adjustments do not meet the "known and measurable" standard and results in rates that are not just and reasonable. Therefore, as shown on Schedule MAB-22, I recommend that the company's proposed pro forma Supervisory Maintenance and General Expense salary increases of $4,377 and $2,067, respectively, be disallowed.

B. <u>WSC Expenses</u>

Q. Can you provide the Commission with the amount of expenses that were allocated from the service company (WSC) to UUC during the test year?

A. Yes. Based upon the reply to CA 1-37, the following test year expenses were allocated to the company:

Operators Salaries- $108,006
Office Salary- $8,320
Benefits & Taxes- $28,696
Computer Costs- $2,375
Insurance Expense- $10,613
Common Expenses- $16,625

These expenses, which total $174,635, are included in the determination of the company's rates.

Q. How does this total compare to the test year per book total operating expenses?

A. As shown on Schedule B, page 1 of the Application, test year operating expenses totaled $426,299. Therefore, about 41% of the company's per book expenses were allocated to it from the service company.

Q. Why are you bringing these figures to the Commission's attention?

A. I want the Commission to understand the magnitude of the expenses that are allocated to the company rather than expended by the company itself.

Q. Have you prepared a schedule to show the Commission the types of Common Expenses that are allocated to the company?

A. Yes. Schedule MAB-28, shows a breakdown of the $16,627 of Common Expenses allocated to the company during the teat year. I have sorted these expenses from highest to lowest for the Commission's convenience.

Again, I would emphasize that all of these expenses were allocated to the company from the Illinois service company. For example, the largest allocation is for service company salaries in the amount of $5,956.

The second largest amount is $2,350 for intercompany interest. It is unclear to me how this interest relates to the pro forma interest on debt of $47,401 which the company is claiming in this proceeding.

Q. Are there certain allocations which you question the propriety of being included in the company's rates and, therefore, supported by its ratepayers?

A. Yes. For example, I question whether UUC ratepayers should support expenditures for such items as other office maintenance, tax return review, employment finder fees, landscaping, moving, snow, etc. The threshold question is: do UUC customers benefit from such expenditures? I would answer that the benefits are uncertain. The service company would argue that it can supply services to UUC cheaper than the company could itself. There is some truth to that statement. However, the Commission must determine whether every dollar of service company expenditures benefits ratepayers.

Q. What do you recommend?

A. As shown on Schedule MAB-23, I recommend that the Commission disallow the $997 of expenditures shown here so as to emphasize to the company that the burden of proof for each and every allocation dollar is upon them. I would also recommend that in the next UI subsidiary rate case to come before this Commission, that the company be required to testify as to how the allocations are determined and the resulting benefits from these allocations.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

IDAHO

Idaho Electric Company) .... Docket Nos.: 100726)
) .... 100727)
Idaho Water Company) .... 100728)

INDIANA

Flowing Wells Water Company........ Docket No. 34739

MASSACHUSETTS

Hingham Water Company .... Docket No. 19744

American Water Company........ Docket No. 19900

NEW JERSEY

Commonwealth Water Company........ Docket Nos.: 784-274
819-781
842-100
WR8503245

Elizabethtown Water Company .... Docket Nos.: 802-76
818-735
WR8504330

Mt. Holly Water Company........ Docket Nos.: 805-314
819-801

Monmouth Consolidated Water Company........ Docket Nos.: 819-816
828-723
831-1113
850-3267

Public Service Electric and Gas Co. .... Docket No. 812-76

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

NEW JERSEY

Atlantic City Electric Company	Docket Nos.: 7911-9511
	839-753(LEAC)
	8410-1079(LEAC)
	ER8504434
	8609980-4981
	8709-1159&1160
	8809-1053
	ER90091090J
	ER92020253J
Jersey Central Power and Light Co.	Docket Nos.: 811-25
	831-110
	8507698
	8601121(LEAC)
	ER87111295(LEAC)
	ER91121820J
Rockland Electric Company	Docket No. 827-612
Middlesex Water Company	Docket Nos.: 829-707
	845-402
New Jersey Natural Gas Company	Docket Nos.: 831-46
	838-687 (LPGA)
Hackensack Water Company	Docket Nos.: 837-622
	847-698
Elizabethtown Gas Company	Docket Nos.: GR86121374
	GR88080913(LPGA)
	GR8812-1321
	GR8801-0217
Toms River Water Company	Docket No. WR92010081

OHIO

American Utilities Co. (Water)	Docket No.80-999-AIR

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

PENNSYLVANIA

Philadelphia Electric Co. (Elec. and Gas)..........	Docket Nos.: R-80061225 R-811626 R-811719 R-822291 R-832410 R-842590 R-850152 R-860346-1307(f) R-880955-1307(f) R-891290-1307(f) R-911976-1307(f)
Equitable Gas Company....................................	Docket No. R-80041169
Duquesne Light Company	Docket Nos.: R-811470 R-832337 M-00930404C001
West Penn Power Company................................	Docket Nos.: R-811836 R-901609
The Peoples Natural Gas Co.................................	Docket No. R-821906
Pennsylvania Gas & Water Co. (Gas and Water)	Docket Nos.: R-821961 R-822102 R-891261
Metropolitan Edison Company................................	Docket No. R-842770
Pennsylvania Electric Co..	Docket No. R-842771
Philadelphia Water Department................................	1985 Rate Increase 1990 Rate Increase 1992 Rate Increase

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

PENNSYLVANIA

Philadelphia Gas Works	1986 Rate Increase 1988 Rate Increase 1990 Rate Increase 1991 Rate Increase 2001 Rate Increase 1993-94 Operating Budget 1994-95 Operating Budget 1995-96 Operating Budget 1996-97 Operating Budget 1997-98 Operating Budget 1998-99 Operating Budget 1999-00 Operating Budget 2000-01 Operating Budget 2001-02 Operating Budget
UGI Corporation	Docket No. R-860344-1307(f) R-00932862
Columbia Gas of Pennsylvania	Docket Nos.: R-860527 R-87058 R-901873 R-911921-1307(f) R-932597-1307(f)
Western Pennsylvania Water Co.- Butler District	Docket No. R-832381
Pennsylvania-American Water Co.	Docket No. R-880916
T.W. Phillips Gas and Oil Co.	Docket Nos.: R-88194 R-891566
Philadelphia Suburban Water Co.	Docket No. R-891270
Newtown Artesian Water Co.	Docket No. R-911977
Indian Rock Water Company	Docket No. R-911971
Apollo Gas Company	Docket No. R-092254
Shenango Valley Water Company	Docket No. R-00922420

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

PENNSYLVANIA

Pennsylvania Power & Light Company...... Docket No. M-00930406C0001

Borough of Media Water Works.......................... Docket No. R-00943098

PFG Gas, Inc./North Penn Gas, Inc. .... Docket No. R-00953524

RHODE ISLAND

Bristol County Water Company ....Docket No. 1787

NEW MEXICO

Gas Company of New Mexico ....Case No. 1916

Public Service Co. of New Mexico..................................Case No. 1916

DELAWARE

Delmarva Power & Light Co. ....Docket Nos.: 86-24
91-20
92-85

Artesian Water Company...Docket Nos.: 90-10
92-5

Wilmington Suburban Water Co. ....Docket No. 91-1

Delaware Electric Cooperative ....Docket No. 91-37

SOUTH CAROLINA

South Carolina Pipeline Corp. ....Docket No. 88-652-G

South Carolina Electric and Gas Co.......................Docket Nos.: 88-695-G
92-009-G

Peoples Natural Gas Co. of SC.................................Docket No. 89-12-G

Appendix A

MICHAEL A. BLEIWEIS

CONSULTING EXPERIENCE

SOUTH CAROLINA

Carolina Water Service..Docket No. 93-738-W/S
2000-0207-W/S

Tega Cay Water Service, Inc...............................Docket No. 96-137-W/S

Palmetto Utilities, Inc..Docket No. 98-653-S

Harbor Island Utilities, Inc....................................Docket No. 97-262-W/S

Sigfield Water Company, Inc. ....Docket No. 97-131-W

MAINE

Central Maine Power Co. ....Docket No. 92-345

Mr. Bleiweis has also supervised or participated in the preparation of rate cases for companies in the states of Arizona, California and New York.

Schedule MAB-1

United Utility Companies, Inc.
Rate Base
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)	Schedule MAB-
Gross Plant in Service	$3,067,547	$7,234	$3,074,781	4
Accumulated Depreciation	(229,884)	(3,855)	(233,739)	19
Net Plant in Service	2,837,663	3,379	2,841,042	
Cash Working Capital	59,059	(12,165)	46,894	27
Contributions in Aid	(1,719,531)	0	(1,719,531)	
Accum Def Income Taxes	(154,905)	0	(154,905)	
Customer Deposits	(23,294)	0	(23,294)	
Plant Acquisition Adjustment	0	0	0	
Water Service Corporation	13,397	0	13,397	
Pro Forma Plant	87,353	(87,353)	0	26
TOTAL RATE BASE	$1,099,742	($96,139)	$1,003,603	

Schedule MAB-2

United Utility Companies, Inc.
Utility Operating Income Before Income Taxes
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)	Schedule MAB-
Total Operating Revenues	$362,994	$0	$362,994	
Maintenance Expenses	333,933	0	333,933	
General Expenses	95,209	0	95,209	
Depreciation	29,183	0	29,183	
Taxes Other Than Income	43,323	0	43,323	
U.O.I. Before Income Taxes	($138,654)	$0	($138,654)	
Adjustments:				
Legal Fees		1,992		3
Salaries Charged to Plant-WSC		7,234		4
Uncollectible Accounts		4,095		5
Temporary Employees-Clerical		1,134		6
Computer Supplies		748		7
Operations Telephone		1,517		8
Water Main Breaks		1,067		9
Water-Water Electrical Equipment Repair		471		10
Sewer-Maintenance Repairs		8,773		11
Sewer-Main Breaks		1,150		12
Sewer-Electrical Equipment Repair		5,956		13
Sewer-Sewer Rodding		8,066		14
Operators-Other Office Expense		929		15
Sewer Tests		1,916		16
Gasoline		1,190		17
Utility/Commission Tax		223		18
Depreciation Expense		1,310		19
Customer Growth (Net)		1,839		20
Employee Bonuses		315		21
Maint Super Salaries & Wages		4,377		22
Genl Exp Salaries & Wages		2,067		22
Common Expenses		997		23
Total Adjustments	0	57,366	57,366	
Adj UOI Bef Income Taxes	($138,654)	$57,366	($81,288)	

Schedule MAB-3

United Utility Companies, Inc.
Account No. 6338001: Legal Fees
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$2,490		
Amortization over 5 Years		($1,992)	$ 498

Source: C.A. 1-7(b) & 4-6

Schedule MAB-4

United Utility Companies, Inc.
Account No. 6019020: Salaries Charged to Plant-WSC
Test Year Ended December 31, 2000

			Company (1)	Adj. (2)	C.A. (3)
Test Year Expense			($13,390)		
3- Year Average				($7,234)	$ (20,624)
	1998	$ (10,037)			
	1999	$ (38,445)			
	2000	$ (13,390)			

Source: C.A.1-7(b) and 1-37

Schedule MAB-5

United Utility Companies, Inc.
Account No. 6708000: Uncollectible Accounts
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$11,194	$0	$11,194
Test Year Revenue	$ 360,283	$349,089	$ 360,283
Uncoll/Revenue	3.11%	-1.14%	1.9704%
Pro Forma Expense	$11,194	($4,095)	$7,099

	Uncollectible Accounts	Revenue	Ratio
1998	$ 3,043	$ 386,217	0.79%
1999	$ 7,677	$ 365,655	2.10%
2000	$ 11,194	$ 360,283	3.11%
Total	$ 21,914	$ 1,112,155	1.9704%

Source: **C.A.1-7(b) and 1-37**

Schedule MAB-6

United Utility Companies, Inc.
Account No. 6369003: Temporary Employees-Clerical
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$1,823		
3- Year Average		($1,134)	$ 689

1998	$	102
1999	$	142
2000	$	1,823

Source: C.A.1-7(b) and 1-37

United Utility Companies, Inc.
Account No. 6759003: Computer Supplies
Test Year Ended December 31, 2000

			Company (1)	Adj. (2)	C.A. (3)
Test Year Expense			$2,199		
3- Year Average				($748)	$ 1,451
	1998	$ 885			
	1999	$ 1,269			
	2000	$ 2,199			

Source: C.A.1-7(b) and 1-37

United Utility Companies, Inc.
Account No. 6759135: Operations Telephone
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$5,722		
3- Year Average		($1,517)	$ 4,205

1998	$	2,966
1999	$	3,926
2000	$	5,722

Source: C.A.1-7(b) and 1-37

Schedule MAB-9

United Utility Companies, Inc.
Account No. 6759507: Water Main Breaks
Test Year Ended December 31, 2000

		Company (1)	Adj. (2)	C.A. (3)
Test Year Expense		$ 1,600		
3- Year Average			($1,067)	$ 533
1998	$0			
1999	$0			
2000	$1,600			

Source: C.A.1-7(b) and 1-37

Schedule MAB-10

United Utility Companies, Inc.
Account No. 6759509: Water-Water Electrical Equipment Repair
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 706		
3- Year Average		($471)	$ 235

1998	$0
1999	$0
2000	$706

Source: C.A.1-7(b) and 1-37

Schedule MAB-11

United Utility Companies, Inc.
Account No. 7754006: Sewer-Maintenance Repairs
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 21,128		
3- Year Average		($8,773)	$ 12,355

1998	$8,051
1999	$7,885
2000	$21,128

Source: C.A.1-7(b) and 1-37

Schedule MAB-12

United Utility Companies, Inc.
Account No. 7754007: Sewer-Main Breaks
Test Year Ended December 31, 2000

		Company (1)	Adj. (2)	C.A. (3)
Test Year Expense		$ 1,650		
3- Year Average			($1,150)	$ 500
1998	($151)			
1999	$0			
2000	$1,650			

Source: **C.A.1-7(b) and 1-37**

Schedule MAB-13

United Utility Companies, Inc.
Account No. 7754009: Sewer-Electrical Equipment Repair
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 10,022		
3- Year Average		($5,956)	$ 4,066

1998	$1,086
1999	$1,091
2000	$10,022

Source: C.A.1-7(b) and 1-37

Schedule MAB-14

United Utility Companies, Inc.
Account No. 7754011: Sewer-Sewer Rodding
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 24,522		
3- Year Average		($8,066)	$ 16,456

1998	$11,167
1999	$13,680
2000	$24,522

Source: C.A.1-7(b) and 1-37

United Utility Companies, Inc.
Account No. 6759018: Operators-Other Office Expense
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 3,801		
3- Year Average		($929)	$ 2,872

1998	$3,333
1999	$1,483
2000	$3,801

Source: C.A.1-7(b) and 1-37

United Utility Companies, Inc.
Account No. 7352020: Sewer Tests
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 10,565		
3- Year Average		($1,916)	$ 8,649

1998	$7,897
1999	$7,484
2000	$10,565

Source: C.A.1-7(b) and 1-37

Schedule MAB-17

United Utility Companies, Inc.
Account No. 6501020: Gasoline
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Test Year Expense	$ 5,995		
3- Year Average		($1,190)	$ 4,805

1998	$5,025
1999	$3,394
2000	$5,995

Source: C.A.1-7(b) and 1-37

Schedule MAB-18

United Utility Companies, Inc.
Utility/Commission Tax
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Utility/Commission Tax	$4,455	$0	$4,455
Estimated Increase @5%	$223	($223)	$0

Source: C.A. 1-24

United Utility Companies, Inc.
Depreciation Expense
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Gross Plant	$3,067,547	$0	$3,067,547
Add: Pro Forma Plant	87,353	(87,353)	0
Less: Land	(19,437)	0	(19,437)
Vehicles	(44,701)	0	(44,701)
PAA	0	0	0
AIA	0	0	0
Net Plant	$3,090,762	($87,353)	$3,003,409
Plant Depreciation @1.50%	$46,361	($1,310)	$45,051
Vehicles	$44,701	$0	$44,701
Vehicle Depreciation @ 25.00%	$11,175	$0	$11,175
Total Pro Forma Depreciation	$57,536	($1,310)	$56,226
Total Book Depreciation	52,371	0	52,371
Pro Forma Adjustment	$5,165	($1,310)	$3,855

Source: C.A. 1-23(a)

United Utility Companies, Inc.
Customer Growth Adjustment
Test Year Ended December 31, 2000

	Adjustment
Water	
Customers @12/31/99	88
Customers @12/31/00	88
Increase	-
Average Increase	-
Pro Forma Revenue @ Present Rates	$ 34,212
Revenues per Customer	$ 388.77
Adjustment	$ -
Sewer	
Customers @12/31/99	1,382
Customers @12/31/00	1,402
Increase	20
Average Increase	10
Pro Forma Revenue @ Present Rates	$ 326,071
Revenues per Customer	$ 232.58
Adjustment	$ 2,326
Total Revenue Adjustment	$ 2,326
Uncollectibles @ 1.97%	(46)
Purchased Power @ 13.36%	(311)
Chemicals @ 5.55%	(129)
Gross Receipts Tax @ 0.03%	(1)
Net Adjustment	$ 1,839
U.O.I. Before Income Taxes	$ 1,839

Purchased Power	$ 43,566
Chemicals	$ 18,109

SOURCE: C.A. 1-2

United Utility Companies, Inc.
Employee Bonuses
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
UUC	$241	($241)	$0
WSC	74	(74)	0
Total	$315	($315)	$0

Source: **C.A. 4-3**

Schedule MAB-22

United Utility Companies, Inc.
Salaries & Wages
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Maintenance Supervisory			
Per Books	$3,588	$0	$3,588
Adjustment	4,377	(4,377)	0
Total Pro Forma	$7,965	($4,377)	$3,588
General			
Per Books	$15,342	$0	$15,342
Adjustment	2,067	(2,067)	0
Total Pro Forma	$17,409	($2,067)	$15,342

Source: C.A. 1-14(a)

Schedule MAB-23

United Utility Companies, Inc.
Common Expenses
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)
Other Office Maintenance	$505	($505)	$0
Tax Return Review	225	(225)	0
Employment Finder Fees	174	(174)	0
Landscaping, Mowing, Snow	93	(93)	0
Total	$997	($997)	$0

Source: C.A. 1-37

Schedule MAB-24

United Utility Companies, Inc.
Income Taxes
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)	Schedule MAB-
U.O.I. Before Income Taxes	($138,654)	$57,366	($81,288)	2
Less: Interest	47,401	(4,128)	43,273	25
SC Taxable Income	(186,055)	61,494	(124,561)	
State Income Tax @5.0%	(9,303)	3,075	(6,228)	
Federal Taxable Income	(176,752)	58,419	(118,333)	
Federal Income Tax @34%	(60,096)	19,863	(40,233)	
Total Income Taxes	(69,399)	22,938	(46,461)	
Net Utility Operating Income	(69,255)	34,428	(34,827)	

Schedule MAB-25

United Utility Companies, Inc.
Interest Expense
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)	Schedule MAB-
Rate Base	$1,099,742	($96,139)	$1,003,603	1
Debt Ratio	50.02%	0.00%	50.02%	
Embedded Cost of Debt	8.62%	0.00%	8.62%	
Pro Forma Interest	$47,401	($4,128)	$43,273	

Schedule MAB-26

United Utility Companies, Inc.
Pro Forma Plant
Test Year Ended December 31, 2000

	Water (1)	Sewer (2)	Adj. (3)	C.A. (4)	Complete Date (5)
4 New Digestors	$0	$ 45,000	$(45,000)	$0	Dec-01
Portable Generator	0	42,353	(42,353)	0	Dec-01
Total	$0	$87,353	($87,353)	$0	

Source: C.A. 1-34

Schedule MAB-27

United Utility Companies, Inc.
Cash Working Capital
Test Year Ended December 31, 2000

	Company (1)	Adj. (2)	C.A. (3)	Schedule MAB-
O&M Expenses	$429,142	$0	$429,142	
Adjustments:				
Legal Fees		(1,992)		3
Salaries Charged to Plant-WSC		(7,234)		4
Uncollectible Accounts		(4,095)		5
Temporary Employees-Clerical		(1,134)		6
Computer Supplies		(748)		7
Operations Telephone		(1,517)		8
Water Main Breaks		(1,067)		9
Water-Water Electrical Equipment Repair		(471)		10
Sewer-Maintenance Repairs		(8,773)		11
Sewer-Main Breaks		(1,150)		12
Sewer-Electrical Equipment Repair		(5,956)		13
Sewer-Sewer Rodding		(8,066)		14
Operators-Other Office Expense		(929)		15
Sewer Tests		(1,916)		16
Gasoline		(1,190)		17
Employee Bonuses		(315)		21
Maint Super Salaries & Wages		(4,377)		22
Genl Exp Salaries & Wages		(2,067)		22
Common Expenses		(997)		23
O&M Adjustments		($53,994)	($53,994)	
Net O&M	429,142	(53,994)	375,148	
Taxes Other Than Inc Taxes	43,324	(43,324)	0	
Total	472,466	(97,318)	375,148	
Percentage	12.50%	0.00%	12.50%	
Cash Working Capital	$59,058	($12,164)	$46,894	

Schedule MAB-28

United Utility Companies, Inc.

Allocated Common Expenses

Test Year Ended December 31, 2000

common	UUC
sal-il admin/acctg	$5,956
interest-interco	2,350
bank serv charges	1,064
fica exp	890
audit fees	849
director fees	774
health ins. Reimb	736
other off maint	505
esop contributions	468
deprec-office furn	416
pension contributions	379
deprec-office struct	379
real estate tax	321
tax return review	225
printing & blueprints	181
off supply stores	178
employ finder fees	174
office elec	170
office cleaning serv	158
office telephone	141
health ins premiums	121
office edu/train exp	113
landscaping, mowing, snow	93
dental ins reimb	66
employees ed exps	59
suta-il	48
xerox	40
publ subscrip & tapes	39
office gas	31
term life ins	29
cleaning supplies	25
temp empl	23
other emp pens & bene	22
agency exp	20
health costs & other	17
deprec-telephones	16
repair off mach & heatg	15
disability ins	14
reim of off emp exp	13
memberships	12
futa	11
sales/use tax	10
office garbage removal	9
other office exp	8
dental premiums	7
meals & rel exp	6
deferred comp	4
postage	3
s/t int exp other	(87)
employee ins deducts	(156)
misc inc	(318)
total	$16,627